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Programme and Budget Committee

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Item 13 of the provisional agenda

APPLICATION OF THE SPLIT-CURRENCY SYSTEM OF ASSESSMENT

Review of the split-currency system of assessment

Report by the Director-General

Summary

Analyses the experience gained in the application of the split-currency system of assessment and proposes for 1992-1993 a change in the proportions which would represent a ratio of 11 per cent of the appropriations in United States dollars and 89 per cent in Austrian schillings, when expressed at the exchange rate of US$1 = AS12.90. The Austrian schilling portion, expressed in equivalent US dollars, would be adjusted to reflect the rate of exchange approved by the General Conference at its fourth session for the 1992-1993 appropriations.

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Introduction

1. Following the observations of the External Auditor on the administration of the split-currency system of assessment (IDB.7/11 and Corr.1, paragraphs 35-50), and at the request of the Programme and Budget Committee (conclusion 1990/3 para. (e)(i)) the Secretariat held consultations on the subject with representatives of the Permanent Missions to UNIDO in Vienna on 25 September 1990. A report on the implications of the split-currency system of assessment (IDB.7/30) was presented to the Industrial Development Board at its seventh session. The report, which took into account the issues raised during the consultations with Permanent Missions, included an analysis of the 1988-1989 pattern of expenditures, explained the basis for the calculation of the split in currencies and considered the advantages and disadvantages of alternative assessment methods.

2. In its decision IDB.7/Dec.6 the Board took note of the report and requested the Director-General to study further in consultation with Member States alternatives to the present split-currency system, including the introduction of a constant dollar basis for budgeting and reporting purposes, in an effort to determine an optimum system for UNIDO and its Member States. The Director-General was also requested to present to the Committee at its seventh session a tabulation containing the financial data of each option for each Member State, based on the assessed contributions to the regular budget for the 1990-1991 biennium.

3. On 1 March 1991, consultations were held with representatives of the Permanent Missions to UNIDO in Vienna. Issues raised during the consultations have been taken into account in the present report.

I. REVIEW OF THE SPLIT-CURRENCY SYSTEM

4. The split-currency basis of assessment was introduced for the biennium 1988-1989 after examination of a number of alternatives as it was considered the most effective system to protect the programme and budgets of UNIDO against adverse effects of currency fluctuations.

5. The External Auditor, in his report for the financial period 1988-1989, observed that the split-currency system provided purchasing power protection for the budget when the United States dollar depreciated against the Austrian schilling while ensuring that the Organization received only the resources required for implementation when the United States dollar appreciated (IDB.7/11, para. 37).

6. For the biennium 1988-1989 the expenditures were estimated at 28.2 per cent for United States dollar-based expenditures and 71.8 per cent for

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Austrian schilling-based expenditures at an exchange rate of US$1 = AS17.70. For 1990-1991 the expenditures were estimated at 15 per cent for dollar-based expenditures and 85 per cent for schilling-based expenditures at an exchange rate of US$1 = AS12.90. Member States were assessed accordingly.

7. An analysis of dollar- and schilling-based disbursements for 1990 (table 1) shows that the dollar-based portion of expenditures represented 11 per cent of total expenditures at an exchange rate of US$1 = AS12.90.

II. ALTERNATIVES TO THE PRESENT SYSTEM

8. The effectiveness of the split-currency system in protecting the Organization and Member States from currency fluctuations is dependent mainly on the accuracy of the estimates of the dollar- and schilling-based proportions of expenditure. Although the actual amount is only established after the event, an analysis of the expenditures of the past three years indicates that the dollar-based portion is between 10 and 15 per cent.

9. As an alternative to the split-currency system and given the relatively small percentage of dollar-based expenditure currently being incurred, the Organization could consider moving to a 100 per cent schilling-based system of assessment. This would be in line with recommendation 8 of the Joint Inspection Unit (JIU) report "Budgeting in organizations of the United Nations system - some comparisons" (JIU/REP/89/9, Volume I, para. 131), namely that, with a view to minimizing the adverse effects of currency fluctuation, organizations which spend over 85 per cent of their expenditure in local currency at headquarters should switch their budget currency to that local currency.

10. A system of assessment in a single currency (100 per cent Austrian schillings) would simplify the administration and reporting of assessments to the advantage of both UNIDO and the Member States. However, the 100 per cent schilling option has the disadvantage of leaving a residual exchange exposure for dollar-based expenditures. Moreover, amendments would be required to financial regulations 5.1(d) and 5.5(e) covering the currency of the appropriations, assessments and contributions.

11. In view of the disadvantages of a 100 per cent schilling system of assessment, UNIDO could continue to apply the present split-currency system using the most recent experience of the proportions of dollar- and schilling-based expenditure.

12. As requested by the Industrial Development Board, a tabulation (table 2) has been prepared showing the assessed contribution for each Member State for the 1990-1991 biennium utilizing the options of: 85 per cent schillings - 15 per cent dollars; 89 per cent schillings - 11 per cent dollars; and 100 per cent schillings, all expressed at US$1 = AS12.90.

III. CONSTANT DOLLAR BUDGETING AND REPORTING

13. Although UNIDO's regular budget expenditures are to the greater extent based on Austrian schillings there is a continuing requirement to prepare budgets and accounting reports in United States dollars:

(a) The presentation of budgets and financial reports in United States dollars simplifies comparison with budgetary appropriations, historical information and with the reports of the United Nations and its specialized agencies;

(b) Accounts are required to be presented in United States dollars for all technical co-operation activities. Support costs reimbursement continues to be calculated in dollars.

14. Constant dollar budgeting and reporting means that for a particular biennium the Conference-approved budget exchange rate would be applied to appropriations, allotments and expenditures irrespective of the changing level of the United States dollar as expressed by the United Nations rate of exchange. The constant dollar rate applied could be maintained for more than one biennium.

15. The introduction of a constant dollar system would have no impact on Member States in terms of liability for assessed contributions as it is only a method of expressing budgets and reports on a consistent basis. Financial reports would be presented using a constant dollar rate instead of the United Nations rate as is the current practice.

IV. ACTION REQUIRED OF THE COMMITTEE

16. The Committee may wish to take note of the present report and recommend to the Board that the appropriation approved for 1992-1993 be assessed in the proportions of 11 per cent in US dollars of the appropriation expressed at US$1 = AS12.90 and the balance in Austrian schillings (at which US$1 = AS 12.90 the US dollar equivalent of the Austrian schilling proportion represents 89 per cent of the total assessment).

17. The Committee may wish to request the Secretariat (a) to continue to examine the feasibility of introducing a system of constant dollar reporting for the 1992-1993 biennium, (b) to continue to monitor the expenditure patterns and further improve the expenditure review mechanisms, and (c) to report to the eighth session of the Committee on progress made.

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Table 1

Regular budget 1990-1991 a/

Analysis of 1990 disbursements b/

(in thousands of US dollars and at US$1 = AS 12.90)

	Austrian schilling portion at US dollar equivalent	%	United States dollar portion	%	Total (100%)
Object of expenditure					
Salaries	43,105	97	1,260	3	44,365
Common staff costs	9,417	65	5,123	35	14,540
Travel on official business	743	60	504	40	1,247
Contractual services	139	64	78	36	217
General operating expenses	8,913	96	380	4	9,293
Supplies and materials	1,093	83	220	17	1,313
Acquisition of furniture and equipment	294	93	22	7	316
New premises, including additions	0	0	25	100	25
Other expenditure	3,704	83	755	17	4,459
Subtotal (A)	67,408	89	8,367	11	75,775
Actual income receipt					
Bank interest	172	26	490	74	662
Reimbursement of administrative services	324	100	0	0	324
Prior years refund	213	52	197	48	410
Sale of equipment	0	0	8	100	8
Other	54	100	0	0	54
VIC cost-sharing	9,078	96	361	4	9,439
Publications	0	0	94	100	94
Subtotal (B)	9,841	90	1,150	10	10,991
TOTAL (A) - (B)	57,567	89	7,217	11	64,784

a/ In accordance with the Constitution of UNIDO, Annex II.B, 6 per cent of the total of the regular budget should finance technical co-operation activities. This would provide funding in line with the split-currency ratio agreed upon for the total net regular budget.

b/ Adjusted for payments in United States dollars which are Austrian schilling based.

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Table 2

COMPARISON OF ASSESSMENT SPLITS BASED ON 1990-1991 APPROPRIATIONS a/

Member State	Scale of Assessment (percentage)	Dollar Assessment 15%	Schilling Assessment 85%	Dollar Assessment 11%	Schilling Assessment 89%	Schilling Assessment 100%
Afghanistan	0.01	2,351	171,843	1,724	179,928	202,163
Albania	0.01	2,351	171,843	1,724	179,928	202,163
Algeria	0.15	35,260	2,577,639	25,858	2,698,921	3,032,450
Angola	0.01	2,351	171,843	1,724	179,928	202,163
Argentina	0.67	157,496	11,513,453	115,501	12,055,179	13,544,944
Austria	0.75	176,301	12,888,193	129,292	13,494,604	15,162,251
Bahamas	0.02	4,701	343,685	3,448	359,856	404,327
Bahrain	0.02	4,701	343,685	3,448	359,856	404,327
Bangladesh	0.01	2,351	171,843	1,724	179,928	202,163
Barbados	0.01	2,351	171,843	1,724	179,928	202,163
Belgium	1.19	279,731	20,449,267	205,144	21,411,438	24,057,439
Belize	0.01	2,351	171,843	1,724	179,928	202,163
Benin	0.01	2,351	171,843	1,724	179,928	202,163
Bhutan	0.01	2,351	171,843	1,724	179,928	202,163
Bolivia	0.01	2,351	171,843	1,724	179,928	202,163
Botswana	0.01	2,351	171,843	1,724	179,928	202,163
Brazil	1.47	345,550	25,260,859	253,413	26,449,423	29,718,012
Bulgaria	0.15	35,260	2,577,639	25,858	2,698,921	3,032,450
Burkino Faso	0.01	2,351	171,843	1,724	179,928	202,163
Burundi	0.01	2,351	171,843	1,724	179,928	202,163
Byelorussian Soviet Socialist Republic	0.34	79,923	5,842,648	58,613	6,117,554	6,873,554
Cameroon	0.01	2,351	171,843	1,724	179,928	202,163
Canada	3.13	735,763	53,786,727	539,580	56,317,480	63,277,128
Cape Verde	0.01	2,351	171,843	1,724	179,928	202,163
Central African Republic	0.01	2,351	171,843	1,724	179,928	202,163
Chile	0.08	18,805	1,374,741	13,791	1,439,424	1,617,307
China	0.80	188,054	13,747,406	137,912	14,394,244	16,173,068
Colombia	0.14	32,910	2,405,796	24,135	2,518,993	2,830,287
Comoros	0.01	2,351	171,843	1,724	179,928	202,163
Congo	0.01	2,351	171,843	1,724	179,928	202,163
Costa Rica	0.02	4,701	343,685	3,448	359,856	404,327
Cote d'Ivoire	0.02	4,701	343,685	3,448	359,856	404,327
Cuba	0.09	21,156	1,546,583	15,515	1,619,352	1,819,470
Cyprus	0.02	4,701	343,685	3,448	359,856	404,327
Czechoslovakia	0.67	157,496	11,513,453	115,501	12,055,179	13,544,944
Democratic People's Republic of Korea	0.05	11,753	859,213	8,619	899,640	1,010,817
Denmark	0.70	164,548	12,028,980	120,673	12,594,964	14,151,434
Dominica	0.01	2,351	171,843	1,724	179,928	202,163
Dominican Republic	0.03	7,052	515,528	5,172	539,784	606,490
Ecuador	0.03	7,052	515,528	5,172	539,784	606,490
Egypt	0.07	16,455	1,202,898	12,067	1,259,496	1,415,143
El Salvador	0.01	2,351	171,843	1,724	179,928	202,163
Equatorial Guinea	0.01	2,351	171,843	1,724	179,928	202,163
Ethiopia	0.01	2,351	171,843	1,724	179,928	202,163
Fiji	0.01	2,351	171,843	1,724	179,928	202,163
Finland	0.52	122,235	8,935,814	89,643	9,356,259	10,512,494
France	6.33	1,487,980	108,776,351	1,091,228	113,894,456	127,969,400
Gabon	0.03	7,052	515,528	5,172	539,784	606,490
Gambia	0.01	2,351	171,843	1,724	179,928	202,163
Germany	9.48	2,228,445	162,906,763	1,634,256	170,571,792	191,650,855
Ghana	0.01	2,351	171,843	1,724	179,928	202,163

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Table 2 (continued)

Member State	Scale of Assessment (percentage)	Dollar Assessment 15%	Schilling Assessment 85%	Dollar Assessment 11%	Schilling Assessment 89%	Schilling Assessment 100%
Greece	0.41	96,378	7,045,546	70,680	7,377,050	8,288,697
Grenada	0.01	2,351	171,843	1,724	179,928	202,163
Guatemala	0.02	4,701	343,685	3,448	359,856	404,327
Guinea	0.01	2,351	171,843	1,724	179,928	202,163
Guinea-Bissau	0.01	2,351	171,843	1,724	179,928	202,163
Guyana	0.01	2,351	171,843	1,724	179,928	202,163
Haiti	0.01	2,351	171,843	1,724	179,928	202,163
Honduras	0.01	2,351	171,843	1,724	179,928	202,163
Hungary	0.21	49,364	3,608,694	36,202	3,778,489	4,245,430
India	0.38	89,326	6,530,018	65,508	6,837,266	7,682,207
Indonesia	0.15	35,260	2,577,639	25,858	2,698,921	3,032,450
Iran (Islamic Republic of)	0.70	164,548	12,028,980	120,673	12,594,964	14,151,434
Iraq	0.12	28,208	2,062,111	20,687	2,159,137	2,425,960
Ireland	0.18	42,312	3,093,166	31,030	3,238,705	3,638,940
Israel	0.21	49,364	3,608,694	36,202	3,778,489	4,245,430
Italy	4.04	949,675	69,424,401	696,455	72,690,932	81,673,993
Jamaica	0.01	2,351	171,843	1,724	179,928	202,163
Japan	11.52	2,707,983	197,962,649	1,985,932	207,277,114	232,892,178
Jordan	0.01	2,351	171,843	1,724	179,928	202,163
Kenya	0.01	2,351	171,843	1,724	179,928	202,163
Kuwait	0.29	68,170	4,983,435	49,993	5,217,913	5,862,737
Lao People's Democratic Republic	0.01	2,351	171,843	1,724	179,928	202,163
Lebanon	0.01	2,351	171,843	1,724	179,928	202,163
Lesotho	0.01	2,351	171,843	1,724	179,928	202,163
Libyan Arab Jamahiriya	0.28	65,819	4,811,592	48,269	5,037,985	5,660,574
Luxembourg	0.06	14,104	1,031,055	10,343	1,079,568	1,212,980
Madagascar	0.01	2,351	171,843	1,724	179,928	202,163
Malawi	0.01	2,351	171,843	1,724	179,928	202,163
Malaysia	0.11	25,857	1,890,268	18,963	1,979,209	2,223,797
Maldives	0.01	2,351	171,843	1,724	179,928	202,163
Mali	0.01	2,351	171,843	1,724	179,928	202,163
Malta	0.01	2,351	171,843	1,724	179,928	202,163
Mauritania	0.01	2,351	171,843	1,724	179,928	202,163
Mauritius	0.01	2,351	171,843	1,724	179,928	202,163
Mexico	0.95	223,315	16,325,045	163,770	17,093,165	19,205,518
Mongolia	0.01	2,351	171,843	1,724	179,928	202,163
Morocco	0.04	9,403	687,370	6,896	719,712	808,653
Mozambique	0.01	2,351	171,843	1,724	179,928	202,163
Nepal	0.01	2,351	171,843	1,724	179,928	202,163
Netherlands	1.67	392,564	28,697,710	287,891	30,047,984	33,761,279
New Zealand	0.24	56,416	4,124,222	41,374	4,318,273	4,851,920
Nicaragua	0.01	2,351	171,843	1,724	179,928	202,163
Niger	0.01	2,351	171,843	1,724	179,928	202,163
Nigeria	0.20	47,014	3,436,852	34,478	3,598,561	4,043,267
Norway	0.56	131,638	9,623,184	96,538	10,075,971	11,321,148
Oman	0.02	4,701	343,685	3,448	359,856	404,327
Pakistan	0.06	14,104	1,031,055	10,343	1,079,568	1,212,980
Panama	0.02	4,701	343,685	3,448	359,856	404,327
Papua New Guinea	0.01	2,351	171,843	1,724	179,928	202,163
Paraguay	0.03	7,052	515,528	5,172	539,784	606,490
Peru	0.06	14,104	1,031,055	10,343	1,079,568	1,212,980
Philippines	0.09	21,156	1,546,583	15,515	1,619,352	1,819,470
Poland	0.57	133,989	9,795,027	98,262	10,255,899	11,523,311
Portugal	0.18	42,312	3,093,166	31,030	3,238,705	3,638,940
Qatar	0.05	11,753	859,213	8,619	899,640	1,010,817
Republic of Korea	0.22	51,715	3,780,537	37,926	3,958,417	4,447,594
Romania	0.19	44,663	3,265,009	32,754	3,418,633	3,841,104

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Table 2 (continued)

Member State	Scale of Assessment (percentage)	Dollar Assessment 15%	Schilling Assessment 85%	Dollar Assessment 11%	Schilling Assessment 89%	Schilling Assessment 100%
Rwanda	0.01	2,351	171,843	1,724	179,928	202,163
Saint Kitts and Nevis	0.01	2,351	171,843	1,724	179,928	202,163
Saint Lucia	0.01	2,351	171,843	1,724	179,928	202,163
Saint Vincent and the Grenadines	0.01	2,351	171,843	1,724	179,928	202,163
Sao Tome and Principe	0.01	2,351	171,843	1,724	179,928	202,163
Saudi Arabia	1.03	242,120	17,699,785	177,562	18,532,589	20,822,825
Senegal	0.01	2,351	171,843	1,724	179,928	202,163
Seychelles	0.01	2,351	171,843	1,724	179,928	202,163
Sierra Leone	0.01	2,351	171,843	1,724	179,928	202,163
Somalia	0.01	2,351	171,843	1,724	179,928	202,163
Spain	1.98	465,435	34,024,830	341,332	35,625,754	40,028,343
Sri Lanka	0.01	2,351	171,843	1,724	179,928	202,163
Sudan	0.01	2,351	171,843	1,724	179,928	202,163
Suriname	0.01	2,351	171,843	1,724	179,928	202,163
Swaziland	0.01	2,351	171,843	1,724	179,928	202,163
Sweden	1.23	289,134	21,136,637	212,040	22,131,150	24,866,092
Switzerland	1.09	256,224	18,730,841	187,905	19,612,158	22,035,805
Syrian Arab Republic	0.04	9,403	687,370	6,896	719,712	808,653
Thailand	0.10	23,507	1,718,426	17,239	1,799,281	2,021,633
Togo	0.01	2,351	171,843	1,724	179,928	202,163
Tonga	0.01	2,351	171,843	1,724	179,928	202,163
Trinidad and Tobago	0.05	11,753	859,213	8,619	899,640	1,010,817
Tunisia	0.03	7,052	515,528	5,172	539,784	606,490
Turkey	0.32	75,222	5,498,962	55,165	5,757,698	6,469,227
Uganda	0.01	2,351	171,843	1,724	179,928	202,163
Ukrainian Soviet Socialist Republic	1.27	298,536	21,824,007	218,935	22,850,862	25,674,745
Union of Soviet Socialist Republics	10.12	2,378,888	173,904,688	1,744,586	182,087,187	204,589,309
United Arab Emirates	0.19	44,663	3,265,009	32,754	3,418,633	3,841,104
United Kingdom of Great Britain and Northern Ireland	4.92	1,156,535	84,546,548	848,158	88,524,601	99,464,368
United Republic of Tanzania	0.01	2,351	171,843	1,724	179,928	202,163
United States of America	25.00	5,876,700	429,606,443	4,309,748	449,820,127	505,408,373
Uruguay	0.04	9,403	687,370	6,896	719,712	808,653
Vanuatu	0.01	2,351	171,843	1,724	179,928	202,163
Venezuela	0.58	136,339	9,966,869	99,986	10,435,827	11,725,474
Viet Nam	0.01	2,351	171,843	1,724	179,928	202,163
Yemen	0.02	4,701	343,685	3,448	359,856	404,327
Yugoslavia	0.47	110,482	8,076,601	81,023	8,456,618	9,501,677
Zaire	0.01	2,351	171,843	1,724	179,928	202,163
Zambia	0.01	2,351	171,843	1,724	179,928	202,163
Zimbabwe	0.02	4,701	343,685	3,448	359,856	404,327
Total	100.00	23,506,800	1,718,425,770	17,238,991	1,799,280,506	2,021,633,490

a/ Based on net appropriations of $156,718,100 at an exchange rate of US$1=AS12.90.

Note: Totals are rounded and not exact additions of individual assessments.